

G R Evans  
Vice President  
Federal Regulatory Affairs

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**NYNEX**

February 21, 1996

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**Ex Parte**

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Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, NW  
Washington, DC 20554

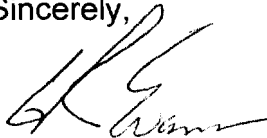
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

RE: CC DOCKET No. 94-1

Dear Mr. Caton:

On February 21, 1996, Mr. T. Tauke, Mr. Frank Gumper and I, representing NYNEX Corporation met with Chairman R. E. Hundt and Mr. J. Nakahata and Mr. D. Gipps of his staff. The purpose of the meeting was to discuss NYNEX's Adaptive Regulatory Model. There was a wide ranging discussion of the impacts of the telecommunications reform legislation and other current regulatory issues. During the discussion, NYNEX's views on above referenced proceeding were discussed. The positions discussed reflect those put forth by NYNEX in its filings in this proceeding. The attached document was used to facilitate the discussion.

Sincerely,



cc: Chairman Hundt  
J. Nakahata  
D. Gipps

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# A Review of NYNEX's Adaptive Regulatory Model

February 21, 1996

# **Legislation Speeds Need For Access Reform**

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- Mandated local competition opens switched access markets.
- Universal Service Fund cannot solve access rate issue.
- Access reform allows Universal Service to focus on very high cost, subscribership and education.
- NYNEX's adaptive regulatory model provides FCC solution for competitive evolution.

# **NYNEX's Adaptive Regulatory Model**

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- Phase 1 - Price Cap Regulation - Region Wide
  - Framework A - Baseline
    - No competitive presence or market entry.
  - Framework B - Barriers to Entry Removed and Competitor Present
    - Competitive structure available in jurisdictions representing 75% of lines.
    - Competitor is operational in-region.
  - Framework C - Significant Competitive Presence
    - Competitive structure in place throughout entire region.
    - Competitive presence throughout major segments of LEC market.

# **NYNEX's Adaptive Regulatory Model**

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- **Phase 2 - Streamlined Regulation**
  - Products and areas are subject to effective competition.
  - A service, or group of services, in the relevant market area are removed from price caps.
- **Phase 3 - Non-Dominant Status**
  - Follows Streamlined Regulation.
  - LEC classified as non-dominant for a service, or group of services, in the relevant market area.

# Components of Adaptive Regulatory Framework Change as Competition Evolves

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<u>Component</u>	<u>A</u>	<u>Price Cap Regulation</u> <u>B</u>	<u>C</u>
Rate Structure	→	Pro-competitive Structural Changes	→
Pricing Flexibility	→	Increased Pricing Flexibility	→
Price Cap Baskets	→	Simplify / Reduce Basket Structure	→
Price Cap Productivity	→	Reduced X Factor	→
Subscriber Line Charge	→	Increase/Deaverage	→

# **Public Policy Benefits of NYNEX's Adaptive Regulatory Model**

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- Provides clear signals, in advance, to the market of changing regulatory framework.
- Provides incentives to LECs to facilitate the evolution of competition.
- Addresses concerns of regulators and competitors that LECs will use pricing flexibility to hinder competition.
- Addresses concerns of LECs and provides assurance that regulation will adapt and keep pace with competitive developments.
- Eliminates continuing regulatory scrutiny of waivers requested in response to competition.